



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

Drivers of 2016 Health Insurance Premium Changes

Cori E. Uccello, MAAA, FSA, MPP
Senior Health Fellow
American Academy of Actuaries

Alliance for Health Reform
Washington, DC
October 5, 2015

Copyright © 2015 American of Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

Premium Components

- Who is covered – the composition of the risk pool
- Projected medical costs
- Other premium components—administrative costs, taxes, profit
- Laws and regulations

Copyright © 2015 American of Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

2



2016 Premium Rate Development

Approximate Internal Insurer Deadlines*

Plan design development and actuarial value testing	By end of February 2015
Examine prior experience and make necessary adjustments	By mid March 2015
Finalize provider negotiations	By mid to late March 2015
Project data based on expected medical and prescription drug trend	By end of March 2015

External Deadlines

File rates	April 15, 2015*
Rates finalized	August 25, 2015 (QHPs) October 9, 2015 (non-QHPs)
Open enrollment begins	November 1, 2015

* Several states extended the rate filing date to May 15. Insurer intermediate deadlines would be changed accordingly.

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

3



Major Drivers of 2016 Premium Changes

- Underlying growth in health care costs
- Reduction of reinsurance program funds
- Composition of the risk pool and how it compares to what was projected

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

4



Major Driver: Medical Trend

- Underlying growth in medical spending
- Recently, medical spending growth has been low relative to historical levels.
- Prescription drug spending has been increasing more rapidly with the increase in specialty drugs.

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

5



Major Driver: Reduction of Reinsurance Program Funds

- By law, the reinsurance program funds are reduced from \$10b in 2014 to \$6b in 2015 to \$4b in 2016
- The reinsurance program offsets claims, thereby lowering premiums
- A reduction in reinsurance payments → lower offset to 2016 claims
- A lower offset → upward pressure on 2016 premiums

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

6



Major Driver: Reduction of Reinsurance Program Funds (cont.)

Reinsurance Program Parameters

	2014	2015	2016
Program Funds	\$10 billion	\$6 billion	\$4 billion
Attachment Point	\$60,000 (subsequently lowered to \$45,000)	\$70,000 (subsequently lowered to \$45,000)	\$90,000
Reinsurance Cap	\$250,000	\$250,000	\$250,000
Coinsurance Rate	80% (subsequently raised to 100%)	50%*	50%*

* Coinsurance rates may be changed retroactively depending on actual claims relative to program funding.

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

7



Major Driver: Changes in Expectations Regarding the Risk Pool Profile

- How do expectations regarding the 2016 enrollee risk pool differ from those for 2015?
- Insurers have information regarding their 2014 enrollee demographics, health status, and claims
 - Some info available for 2015
 - Limited information available regarding risk profile of overall market at time 2016 rates were filed
- Adjustments to 2014 claims data may be needed to reflect:
 - Enrollment timing
 - Pent-up demand

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

8



Major Driver: Changes in Expectations Regarding the Risk Pool Profile (cont.)

- Increase in mandate penalty—could increase enrollment and improve risk profile
- State-by-state variations
 - Transitional policy for non-ACA compliant plans
 - 2014 claims experience will provide information on the impact of the policy on claims; assumptions updated as appropriate
 - Overall impact on premiums likely greatest in states that had large heavily-underwritten markets prior to 2014

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

9



Premium Changes for any Particular Consumer Will Vary From an Insurer's Average Change

- Premium changes for a particular consumer will reflect:
 - Particular plan
 - Increase in age
 - Any changes in tobacco status, geographic location, family status
 - Changes in subsidy eligibility

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

10



Related Academy Publications

- Drivers of 2016 Premium Changes (August 2015 issue brief) http://www.actuary.org/files/Drivers_2016_Premiums_080515.pdf
- Drivers of 2015 Premium Changes (June 2014 issue brief) http://www.actuary.org/files/2015_Premium_Drivers_Updated_060414.pdf
- How Will Premiums Change Under the ACA? (May 2013 issue brief) http://www.actuary.org/files/Premium_Change_ACA_IB_FINAL_050813.pdf

Copyright © 2015 American Academy of Actuaries. All Rights Reserved.
May not be reproduced without expressed permission.

11

